

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

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SUBJECT: Approval of Minutes of the June 3, 1998  
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: July 8, 1998

INFORMATION: \_\_\_\_\_

PRESENTER(S): Chairperson

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Proposed minutes of the Investment Committee Meeting held in open session June 3, 1998 are submitted on the following pages.

**PROPOSED  
MINUTES OF THE  
INVESTMENT COMMITTEE MEETING  
OF THE  
STATE TEACHERS' RETIREMENT SYSTEM  
JUNE 3, 1998  
OPEN SESSION  
ROBYN D. MILLER BOARD ROOM  
7667 FOLSOM BOULEVARD  
SACRAMENTO, CALIFORNIA**

**COMMITTEE MEMBERS PRESENT**

Gary Lynes, Chairperson  
Yvonne Gallegos Bodle  
George Fenimore  
Marty Mathiesen  
Michael Mayer  
Lillian Raffel  
Emma Zink  
Fred Buenrostro, representing State Controller  
Kathleen Connell  
Richard Whitmore, representing Superintendent  
of Public Instruction, Delaine Eastin  
Wen Hong, representing State Treasurer Matthew Fong  
Robin Dezember, representing State Director  
of Finance, Craig Brown

**ALSO PRESENT**

James Mosman, Chief Executive Officer  
Patrick Mitchell, Chief Investment Officer  
Elleen Okada, Director of Investment Admin. And External Relations  
Ian Lanoff, Fiduciary Counsel  
Chris Waddell, Chief Counsel  
Christine Drevalas, Treasury Program Manager  
Doug Wills, Staff Counsel  
Mitch Pleis, Director of Real Estate  
Michelle Cunningham, Director of Fixed Income  
Real Desrochers, Director of Alternative Investments  
Richard Rose, Investment Officer  
Allan Emkin, Pension Consulting Alliance  
Terri Sander, Pension Consulting Alliance  
Mary Ann Avansino, Executive Assistant

A quorum being present, Chairperson Lynes called the open session meeting to order at 10:30 a.m.

- I. **ANNOUNCEMENTS** (Item 2)  
Chairperson Lynes introduced Wen Hong representing State Treasurer Matthew Fong.

II. **APPROVAL OF MINUTES OF MAY 6, 1998 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Mr. Fenimore, seconded by Ms. Zink and carried to approve the minutes of the May 6, 1998 Investment Committee, Open Session as presented.

Ms. Raffel, Messrs. Buenrostro, Whitmore, and Mayer arrived at the meeting at 10:33 a.m.

III. **ALTERNATIVE INVESTMENTS - POLICY AND PROCEDURES** (Item 4)

Mr. Mitchell reviewed the accomplishments in alternative investments for the past year. He commended PCA, Pathway and Staff on the accomplishment of all goals for the year. Messrs. Mitchell and Desrochers responded to questions on the revised policies and procedures.

Discussion ensued regarding further refinement to the policy and procedure.

MOTION duly made by Ms. Zink and seconded by Mr. Fenimore to adopt a resolution approving the Alternative Investment Policy and Procedures Manual and Desk Manual, including Staff delegation, as recommended by Pathway Capital Management and Staff. This approval is with the understanding that the Consultant will continue the current due diligence process, and that Staff will include the following items in the Policy: 1) identification of the benchmark, 2) requirement for an annual business plan, and 3) a requirement for semi-annual performance reporting by consultant. A roll call vote was taken. Mss. Bodle, Raffel, Zink and Messrs. Fenimore, Mathiesen, Hong and Mayer voted yes. Messrs. Buenrostro and Whitmore voted no. The motion carried.

Chairperson Lynes recessed the meeting at 11:45 a.m.  
The meeting reconvened at 12:45 p.m.

IV. **REAL ESTATE - POLICIES AND PROCEDURES** (Item 5)

Mr. Pleis and Ms. Sander presented the proposed policies and procedures for real estate.

Discussion ensued regarding further refinement to the policy and procedure.

MOTION duly made by Mr. Mathiesen, seconded by Ms. Zink and carried to adopt a resolution approving the Real Estate Policy and Procedures Manual including Staff delegation, as recommended by Pension Consulting Alliance/E&Y Kenneth Leventhal and Staff. This approval is with the understanding that Staff will include the following items in the Policy: 1) identification of the benchmark, 2) a requirement for an annual business plan, and 3) a requirement for semi-annual performance reporting by consultant. Mr. Buenrostro voted no.

V. **OFF-BALANCE SHEET - SECURITIES LENDING PROGRAM** (Item 6)

Mr. Mitchell and Ms. Cunningham presented historical reviews of the securities lending program and internal management of cash collateral. Ms. Cunningham presented the proposed internal securities lending process. Discussion ensued.

MOTION duly made by Mr. Fenimore, seconded by Mr. Mathiesen and carried to approve Staff and Consultant recommendation to expand the securities lending program to incorporate the internal lending of a portion of STRS' domestic equity and US Treasury assets.

- VI. **LEGISLATION** (Item 8)  
Mr. Mosman reported that AB-1744 did not pass the Assembly appropriation committee.
- VII. **REAL ESTATE - DISCRETION FOR REAL ESTATE ADVISORS** (Item 8)  
Ms. Sander defined and discussed discretionary authority levels as well as discretion alternatives implemented by STRS' peer group.
- VIII. **EQUITY - IMPLICATION OF SELECTION PROCESS** (Item 9)  
Ms. Okada presented the written item concerning manager selection/contract issues which may arise during the current RFP process and options for consideration.
- IX. **CREDIT ENHANCEMENT - SCHOOL BOND ENHANCEMENT** (Item 10)  
Messrs. Waddell and Rose reviewed the letter from Orrick, Herrington & Sutcliffe addressing issues relating to sections 503 and 401 of the Internal Revenue Code and certain provision of the California Education Code raised by the proposed expansion of the STRS' credit enhancement program to allow for school bond enhancement. Discussion ensued.

MOTION duly made by Mr. Buenrostro, seconded by Ms. Bodle to adopt a resolution directing staff to pursue necessary statutory changes which would allow STRS to participate in the credit enhancement of debt instruments issued by employing agencies and would allow for the creation of an intercept mechanism.

Discussion continued.

Chairperson Lynes recessed the meeting at 2:45 p.m.  
The meeting reconvened at 2:50 p.m.

The motion was tabled for consideration later in the meeting.

- X. **CREDIT ENHANCEMENT - ACTIVITY STATUS REPORT** (Item 11)  
Mr. Rose presented the written report.
- XI. **REAL ESTATE - ACTIVITY STATUS REPORT** (Item 12)  
Mr. Pleis presented the written report.
- XII. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 13)  
Mr. Desrochers presented to the written report.
- XIII. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 14)  
Mr. Mitchell presented the written report.
- XIV. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 15)  
There were no statements from the public.
- XV. **CREDIT ENHANCEMENT - SCHOOL BOND ENHANCEMENT** (Item 10)

Mr. Waddell presented a revised resolution including the following paragraph: “WHEREAS, the Staff believes that expanding the existing credit enhancement program of STRS to include debt instruments issued by employing agencies offers the potential to increase the fee income currently generated by the program.

AMENDED MOTION duly made by Mr. Buenrostro, seconded by Ms. Bodle, and carried to adopt the revised resolution directing staff to pursue necessary statutory changes which would allow STRS to participate in the credit enhancement of debt instruments issued by employing agencies and would allow for the creation of an intercept mechanism as an expansion of STRS current credit enhancement program. Mr. Mayer voted no.

XVI. **MOVE TO CLOSED SESSION**

Chairperson Lynes moved the meeting directly to closed session at 3:20 p.m.

XVII. **ADJOURNMENT**

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to litigation and investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 4:50 p.m.

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James D. Mosman, Chief Executive Officer and Secretary to the  
Teachers' Retirement Board

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Gary Lynes, Chairperson